

**MINUTES
of the
FIFTH MEETING
of the
INVESTMENTS AND PENSIONS OVERSIGHT COMMITTEE**

**November 5, 2015
Room 307, State Capitol
Santa Fe, New Mexico**

The fifth meeting of the Investments and Pensions Oversight Committee was called to order by Representative Monica Youngblood, vice chair, on Thursday, November 5, 2015, at 9:07 a.m. in Room 307 of the State Capitol in Santa Fe.

Present

Sen. George K. Munoz, Chair
Rep. Monica Youngblood, Vice Chair
Rep. Larry A. Larrañaga
Sen. Bill B. O'Neill
Rep. Jane E. Powdrell-Culbert
Sen. William P. Soules
Rep. Jim R. Trujillo
Rep. Luciano "Lucky" Varela

Advisory Members

Sen. Carlos R. Cisneros
Rep. Roberto "Bobby" J. Gonzales
Rep. Tomás E. Salazar
Rep. Sheryl Williams Stapleton

Absent

Sen. Sue Wilson Beffort
Sen. Jacob R. Candelaria
Rep. Miguel P. Garcia
Sen. Carroll H. Leavell
Sen. Steven P. Neville
Rep. William "Bill" R. Rehm

Sen. Ted Barela
Sen. Stuart Ingle
Rep. Patricia A. Lundstrom
Sen. Mary Kay Papen
Sen. William H. Payne
Sen. John C. Ryan
Sen. Michael S. Sanchez
Rep. James E. Smith

Staff

Lisa Sullivan, Staff Attorney, Legislative Council Service (LCS)
Ric Gaudet, LCS
Amy Chavez-Romero, Assistant Director for Drafting Services, LCS

Minutes Approval

Because the committee will not meet again this year, the minutes for this meeting have not been officially approved by the committee.

Guests

The guest list is in the meeting file.

Handouts

Copies of all handouts are in the meeting file.

Thursday, November 5**Report from the Education Trust Board (ETB)**

Barbara Damron, Ph.D., secretary, Higher Education Department (HED), presented a report on the ETB's administration of a 529 college savings plan for the state. Secretary Damron explained that a 529 plan is an education savings plan operated by a state or educational institution, and it is designed to assist families in saving funds for future post-secondary education costs. She noted that a child whose family achieves at least a few hundred dollars in savings for a post-secondary education is 2.5 times more likely to graduate from college than a family that has not saved any money for that child. Earnings and withdrawals from a 529 plan are free from federal and state income taxes if used to pay for qualified educational expenses.

The ETB, which is administratively attached to the HED, is responsible for the implementation, administration and marketing of the state's 529 plans. Secretary Damron said that state money is not invested in the 529 plans. By law, the ETB is required to fund its efforts entirely from program fees.

Theodore Miller, executive director, ETB, explained that Oppenheimer Funds serves as the program manager for the New Mexico 529 college savings program and is responsible for: program administration, customer service and recordkeeping; investment management; and marketing and distribution. Mr. Miller explained that the ETB receives recommendations from Oppenheimer Funds, and as the fiduciary for the state's 529 college savings plans, continuously monitors the funds in the plans.

Kay Ceserani, principal, Pension Consulting Alliance, LLC (PCA), provided an overview of the services provided by PCA to the ETB. PCA is an investment consulting firm that began providing investment consulting services to the ETB in December 2011. According to Ms. Ceserani, PCA provides investment consulting services to seven state-managed 529 plans totaling \$45.8 billion in client assets. Ms. Ceserani also clarified that PCA does not manage assets, but only provides consulting services. She indicated that PCA currently has \$1.1 trillion of client assets under advisement.

Mr. Miller discussed how 529 plans vary among states. He indicated that some states have options to sign up for 529 plans online, while some states offer tax benefits for investment in 529 plans. Mr. Miller said that the ETB is marketing the tax benefits offered in New Mexico to possible investors from other states. Mr. Miller also talked about developments in the ability

to offer multiple age-based investment tracks for college savings plans, rather than just one track. Mr. Miller also noted that the ETB continues to return a portion of management fees to members.

Next, Mr. Miller provided an overview of recent initiatives to market the state's 529 college savings program. He indicated that the ETB is currently researching establishment of an initial and matching grant program to encourage formation of 529 plan accounts by New Mexico residents. Mr. Miller stated that such a program might be able to improve college completion rates.

Mr. Miller presented a chart showing the total 529 plan trust assets and the percentages of assets owned by New Mexico residents versus the percentages of assets owned by out-of-state investors. At the end of fiscal year (FY) 2015, out-of-state assets approximated \$2 billion, while in-state assets approximated \$362.6 million.

Ms. Ceserani discussed how New Mexico's college savings programs were ranked in a recent comparison of state college savings programs. She said that, according to the comparison, the state's Scholar's Edge program is the sixth-best-performing adviser-sold plan in the nation, while the Education Plan ranks as the eleventh-best-performing direct-sold plan in the nation.

Ms. Ceserani presented data on the Sharpe ratios of the Scholar's Edge program and the Education Plan. A Sharpe ratio is used to characterize how well the return of a portfolio compensates for the risk taken. A higher Sharpe ratio reflects a better performance relative to risk. Ms. Ceserani indicated that Sharpe ratios indicate that the Education Plan performed more favorably than the Scholar's Edge program, but both had favorable returns.

Ms. Ceserani presented a chart comparing direct-plan maximum fees for various state-administered 529 plans across the country. She noted that such comparisons might be difficult to rely upon, since fee structures of the plans vary.

Questions from committee members followed. A committee member asked whether any of the 529 plans in New Mexico provide financial counseling services to participants. Secretary Damron said that the Education Plan does not provide for such services, but the Scholar's Edge program does provide for basic financial counseling services. The committee member also asked how money can be withdrawn by a fund participant for post-secondary education. Mr. Miller indicated that the funds in a student's account can be drawn down by that student at will for college expenses or expenses for graduate school. In response to a question from a committee member, Mr. Miller indicated that an account balance could be transferred by an account owner.

A committee member asked about possible strategies to attract additional investment into the state's 529 plans. Mr. Miller indicated that the ETB is working with consultants to increase investment. He also discussed other efforts to attract investors with grant programs and increased marketing efforts in schools. A committee member suggested exploration of contributions to 529 plans through mechanisms using optional contributions from state employee

paychecks or taxpayer rebates. Another committee member suggested studying how similar plans are marketed in other states.

In response to a question from a committee member, Mr. Miller indicated that no general fund appropriations are made to the state-administered 529 plans, and the plans are entirely supported by fees, which average about \$2.4 million annually. He said that portions of those fees are rebated to fund participants and that \$310,000 was rebated to New Mexico participants in New Mexico last year.

A committee member asked how fees were used by the ETB in previous years. Mr. Miller indicated that uses included administration, reserve maintenance, provision of scholarships and marketing. A committee member suggested that matching grants should be explored as an option to increase investment into the state's 529 plans.

Mr. Miller answered questions about the performance of Oppenheimer Funds as program manager for New Mexico's college savings programs. He indicated that the funds have exhibited above-average performance since 2008.

A committee member asked whether New Mexico's 529 plans provide different investment options to account owners. Mr. Miller indicated that different age-based programs are offered, in addition to a wide range of investment portfolios. A committee member requested a future report of the effects of 529 plans on student debt.

State Investment Council (SIC): Potential Legislation

Charles Wollmann, director of communications and legislative affairs, SIC, briefly summarized a bill draft proposed by the SIC to make changes to the SIC's private equity investment program. He stated that the bill draft would remove a requirement that private equity funds maintain an office located in New Mexico. He stated that the bill draft would be intended to attract regional funds to New Mexico. The committee deferred any action on endorsement of the bill until later that day.

Public Employees Retirement Association (PERA): Report on the Latest Actuarial Valuations and How the PERA Is Using the Valuations

Wayne Propst, executive director, PERA, provided the committee with an overview of the latest actuarial valuations for the retirement funds administered by the PERA. He presented a chart showing the valuations with respect to various PERA-administered plans. The state general plan reflected a funded ratio of 67.7 percent for FY 2015, which decreased slightly from the previous fiscal year. The overall ratio for the plans administered by the PERA for FY 2015 was 74.9 percent.

Mr. Propst indicated that modest decreases in funding levels were the result of lower-than-expected market returns and higher-than-expected salary increases in FY 2015. He said that a \$237 million actuarial loss to the fund was significantly attributable to salary increases. Mr.

Propst also noted that FY 2015 returns were 7.64 percent using a smoothed value, compared to an expected return of 7.75 percent. Mr. Propst indicated that an actuarial loss due to non-investment experience increased the unfunded actuarial accrued liability (UAAL) by \$286.5 million. The increase in the UAAL was \$410 million, and the funding ratio decreased from 75.8 percent to 74.9 percent. The UAAL is now expected to be fully amortized in 41 years. Mr. Propst indicated that, while the amortization expectation was 40 years last year, in previous years there was no set date at which the UAAL was expected to be amortized.

Mr. Propst indicated that the PERA funds are expected to be 100 percent funded by 2043. He indicated that a decline in the projected funded ratio in 30 years is the result of lower-than-expected returns for 2015. He indicated that projections are volatile and sensitive to market returns.

Mr. Propst presented a table showing average annual pensions, retirement ages and service credits earned with respect to various retirement plans administered by the PERA. Mr. Propst indicated that recent data show that average retirement ages are increasing. He said that if this trend continues, the funds will be impacted favorably. He also highlighted that reforms to the PERA statutes in the past few years also permit PERA participants to receive increased percentages of their average annual salaries upon retirement if they choose to work for longer periods before retirement. Mr. Propst indicated that there were fewer numbers of participants retiring in FY 2015 than in the previous two fiscal years. He indicated that the recent reforms might have contributed to longer periods of work for some PERA participants.

Mr. Propst and the committee members discussed provisions included in a memorial endorsed by the committee during the previous interim. The memorial proposed to request a moratorium on additional legislation to change retirement benefit provisions relevant to the PERA.

Committee members asked questions about the impact of pension reform provisions on police officers. Mr. Propst explained that some changes affect the periods of time that plan participants must work before receiving cost-of-living adjustments. He also noted that plan participants could earn up to 90 percent of their average salaries upon retirement if they work longer periods before retirement. He said that if this option is used, it might provide an offsetting effect with respect to the additional time required to achieve the first available cost-of-living adjustment. Mr. Propst stated that with an average age of 83, PERA retirees are sometimes receiving pensions for longer periods of time than they worked.

A committee member asked whether return-to-work provisions for police officers can be crafted in a manner that does not affect the long-term solvency of the PERA funds. Mr. Propst said that some reports indicate that rural police forces are close to being fully staffed, but the exception lies with police forces in certain large cities. He said that the Public Employees Retirement Board is concerned about legislation that could impact the PERA funds. He proposed exploration of options to address staffing issues without affecting the PERA funds. He

mentioned the use of bonus payments or other efforts to address retention issues as a possibility. Some committee members suggested that the PERA work with municipalities on a plan for pension reform that could allow return-to-work provisions, while providing for long-term solvency of the PERA funds. Other committee members suggested the exploration of strategies adopted in other states.

A committee member asked what policy issues drove the passage of legislation a few years ago to prevent double-dipping. Susan Pittard, general counsel, PERA, indicated that when return-to-work provisions were passed in 2003, retirements increased significantly. Ms. Pittard indicated that, at some point, there was an impetus to curtail that activity. She noted that of the 1,800 retirees who were able to return to work under the previous version of the law, 472 are still working as state employees.

A committee member suggested return-to-work legislation for some public employees for a limited period. Another committee member suggested that municipalities proposing return-to-work alternatives should propose bill drafts to the committee for review. Upon a motion made and seconded, the committee voted to request the New Mexico Legislative Council's approval for an additional meeting date in December to discuss legislative proposals pertaining to return-to-work options.

A committee member requested information on the UAALs for individual municipalities. In a subsequent presentation, Mr. Propst provided that information to the members.

Educational Retirement Board (ERB): Actuarial Valuations Report and How the ERB Is Using the Valuations

Jan Goodwin, executive director, ERB, explained that the latest report for the actuarial valuations for the ERB was prepared as of the end of FY 2015, using member data, financial data, benefit and contribution provisions, actuarial assumptions and methods. The valuations measure actuarial liabilities, help determine the adequacy of current statutory contributions and allow the ERB to track changes over time.

Ms. Goodwin summarized some key results from the report. She noted that the actuarial funded ratio increased from 63.1 percent to 63.7 percent. The UAAL also increased from \$6.3 billion to \$6.5 billion. In addition, the funding period increased from 42.1 years to 43.2 years.

Ms. Goodwin highlighted some recent events affecting the outcomes of the report. She said that the return on the market value of assets was 3.7 percent, while the return on the actuarial value of assets was 9.7 percent. Additionally, the total payroll of active members increased from about \$2.5 million to about \$2.6 million, with an annual increase of about 2.8 percent. Ms. Goodwin noted that increased payrolls lead to increased contributions and reduce the UAAL over time.

Ms. Goodwin provided data with respect to the members covered by the Educational Retirement Act. She indicated that during the past year, the average salary for active members increased from \$41,503 to \$42,793. She said that currently the average age of active members is 46.5, while the average years served by members is 9.7 years. The average annual benefit for a member is \$21,832. Ms. Goodwin indicated that there are 1.4 active members for each annuitant. She said this ratio is similar to that of other pension plans.

Ms. Goodwin indicated that the fair market value of the ERB's assets increased from about \$11.35 million to \$11.5 million. Total contributions to the Educational Retirement Fund were \$690 million, compared to \$634 million in the previous year. Total distributions totaled \$968 million. The fund had a negative cash flow of \$278 million at the end of the fiscal year. Ms. Goodwin indicated that such negative cash flows are typical of mature pension plans, where benefits are pre-funded.

Ms. Goodwin presented a chart showing the market and actuarial values of assets managed by the ERB. The actuarial return was 9.7 percent in FY 2015, compared to 12 percent in FY 2014. Ms. Goodwin pointed out that actuarial values have grown more steadily due to smoothing used in the calculation of actuarial values of assets.

Ms. Goodwin indicated that the UAAL of the Educational Retirement Fund is estimated to be fully funded in 43.2 years, assuming provision of a two percent cost-of-living adjustment each year.

Ms. Goodwin described the ERB's practices with respect to actuarial matters. She said that statutes require the ERB to provide a valuation report every two years, but the ERB provides an annual valuation report. She also said that while some have identified best practices to require an experience study every five years, the ERB produces an experience study every two years. She also said that consistent with best practices, the ERB conducts an actuarial audit every five years.

Based on its actuarial reports, Ms. Goodwin indicated that the ERB has reduced its long-term earnings assumption from eight percent to 7.75 percent. In addition, it has pursued long-term sustainability legislation and adopted new generational mortality assumptions.

Questions from committee members followed. A committee member asked about the negative cash flows reported for the Educational Retirement Fund at the end of the year. Ms. Goodwin indicated that it is typical for mature retirement plans and funds to pay benefits in excess of contributions received. She said that investment returns over time are crucial.

A committee member asked whether different estimates of funding ratios and funding periods have been calculated using a stress test with different market return assumptions. The committee member also asked how that information is communicated to members. Ms. Goodwin indicated that the ERB has tested different scenarios based on different market returns,

and the results of those different tests have been posted on the ERB's website. She indicated that the ERB conducts such stress tests annually. In response to a question from a committee member, Ms. Goodwin stated that the ERB believes that an assumed market rate of return of 7.75 percent is a realistic assumption.

A committee member requested information on the UAALs for individual school districts. In a subsequent presentation, Ms. Goodwin provided the requested information to the members. She indicated that the UAALs for individual school districts are posted on the ERB's website.

Approval of Minutes

The minutes of the September 15, 2015 meeting were approved without changes.

PERA: Report on Legislative Retirement Plans

Mr. Propst provided a brief overview of the current status of the legislative retirement plans administered by the PERA. He discussed basic requirements of the plans, including the requirement for members to elect membership within 180 days of first taking office. He also provided the members with the latest data on average annual pension amounts and retirement ages for legislators participating in the plan. The average annual pension paid from the Legislative Retirement Fund for a member is \$7,236 and the average age at retirement is 65.4. The funding ratio is 138.5 percent.

Mr. Propst noted that the Tax Administration Act requires an annual distribution of \$2.4 million to the Legislative Retirement Fund. He said that the distribution is in excess of the actuarially determined amount necessary to fund the normal cost associated with the plans.

Committee members and representatives from the PERA discussed the rules with respect to different legislative retirement plan options. In addition, a committee member asked whether there are some legislators who have opted not to participate in a legislative retirement plan. Mr. Propst indicated that there are a few legislators who have chosen not to participate.

A committee member asked whether there has been any discussion to redirect some of the distributions to the Legislative Retirement Fund to funds for other retirement plans. Mr. Propst indicated that a couple of years ago, legislation was introduced to provide a redirection of some of that money to provide funding for judicial and magistrate retirement plans, but the legislation was vetoed by the governor. Committee members further discussed issues pertaining to the funding status of the Legislative Retirement Fund and of retirement funds for judges.

Discussion of Possible Economies of Scale from Merging Functions

Representatives from the State Treasurer's Office (STO), SIC, ERB and PERA were part of a discussion on the possible merging of certain functions among their respective offices.

Tim Eichenberg, state treasurer, discussed the responsibilities of the STO. He stated that the STO is the investment manager for over \$4 billion in short-term assets. The STO is responsible for maximizing a return on the investment of those assets, while maintaining liquidity and safety. The STO manages the general fund, bond proceed investment pools, the Local Government Investment Pool and the Severance Tax Bonding Fund.

State Treasurer Eichenberg said that the STO is organizationally structured to support its core functions, including cash management, fund administration and investment. He indicated that relative to other offices, the STO has unique objectives and risk tolerances. The STO's objectives are focused on maintaining fund safety and liquidity. Thus, it only invests in high-quality short-term bond or cash investments. In addition, State Treasurer Eichenberg noted that its assets are internally managed.

State Treasurer Eichenberg listed some potential benefits and pitfalls of the possibility of the STO merging functions with other offices. He indicated that consolidation of investment knowledge could facilitate an exchange of ideas and that increasing internally managed assets could result in reduced fees. However, he noted that different offices have different investment objectives and those objectives could be impeded with consolidation.

Steven K. Moise, state investment officer, indicated that the SIC has not taken a position on the issue of consolidation. He noted that there are about 20 states that have, to one degree or another, consolidated investment functions among their investment agencies. Vince Smith, deputy state investment officer, noted that in his experience in other states, consolidation presents both advantages and disadvantages. He indicated that while other states have consolidated investment functions among investment agencies, cost savings is not necessarily an advantage of such consolidation. He indicated that alternatives to consolidation that might provide benefits include improved consistency in reporting methods and a focus on specialization.

Bob Jacksha, chief investment officer, ERB, said that the disadvantages of consolidation might outweigh any benefits. He suggested that an amendment to the Constitution of New Mexico might be required to allow consolidation. He explained that the constitution establishes the ERB and the PERA retirement funds as trust funds and designates the respective retirement boards as the sole trustees and fiduciaries of the funds. He also mentioned that the constitution gives similar authority to the state investment officer and the SIC. Meanwhile, the state treasurer is a constitutional officer.

Because of the separate functions of the investment agencies, Mr. Jacksha noted that the respective boards for which those agencies work have separate consultants, managers and staff. He said each agency chooses consultants, managers and staff in a manner that best carries out each agency's individual goals.

Mr. Jacksha indicated that if consolidation results in diminished performance of the investments of the respective investment agencies, any benefits from cost savings might be diminished. He also indicated that pooling of funds for investment purposes might not necessarily provide benefits for some funds, since sometimes the small size of some funds can be used to make investments not available for larger funds.

Mr. Jacksha additionally stated that from the ERB's perspective, investment return and risk are its most important investment considerations. Even if fees could be minimized through consolidation of functions with other investment agencies, the ERB's ability to diversify investments would be minimized and its risk would increase.

John Grabel, chief investment officer, PERA, presented the PERA's perspective on the issue of consolidation. He said that consolidation is not consistent with the PERA's mission and has the potential to increase costs for the PERA funds and its members.

Mr. Grabel noted that the PERA, ERB and SIC have different boards with distinct election and appointment criteria and that they manage separate funds. He said that the different boards have their own asset allocations and differing investment mandates. He said that when different boards have different missions, consolidation may lead to confusion in the achievement of distinct goals. He cited examples of inefficiencies arising in certain cities when investment functions had been consolidated among different investment agencies. Mr. Grabel also indicated that if investment functions were consolidated among New Mexico's investment agencies, inefficiencies could arise if various levels of reviews from staff of the different agencies become necessary.

Mr. Grabel indicated that separate investments by separate investing agencies may be desirable because every pension has a different liability structure. Fiduciaries of different plans might have different asset allocation goals. In addition, he stated that pensions and endowments have distinct liquidity requirements and investment mandates. Thus, Mr. Grabel said that in the process of consolidation, the different missions of the respective investment agencies might be implicated.

Mr. Grabel also suggested that consolidation might lead to other issues for smaller funds if they are consolidated for investment purposes with larger funds. He said that larger portfolios have fewer investment options than smaller portfolios. He also said that larger portfolios may be limited to large asset categories by virtue of their size. On the other hand, smaller portfolios may be able to access other investments. Mr. Grabel noted that a recent report by the Wilshire Trust Universe Comparison Service indicates that as the size of a fund increases, the median performance of the fund decreases over the long term.

Mr. Grabel indicated that consolidation might also result in increased expenses to the investment agencies. He said that states with more assets have a larger staff with greater compensation. He also indicated that cost savings on attorneys, accountants and consultants

cannot necessarily be achieved through consolidation, since separate legal entities would probably still be required to retain these professionals separately. In addition, Mr. Grabel said that larger asset pools do not necessarily yield lower cost structures. He said that costs are related to asset allocation, rather than to the sizes of the funds managed.

Mr. Grabel discussed some operational challenges that could arise as a result of consolidation. He indicated that each investment agency has its own budget, so procedures for processing invoices and budget adjustment requests could be complicated. He also said that because each agency is required to maintain its own books and records, financial statement and audit challenges could arise from consolidation. He said that actuarial valuations could become more challenging to calculate. In addition, he stated that because investment agencies have different cash flow requirements, consolidation could lead to sub-optimized asset allocations.

Mr. Grabel talked about risks that could arise as a result of consolidation. He also indicated that friendly competition between the state's investment agencies is healthy and benefits the state. He said that consolidation might be time-consuming and expensive and that negative motivation for staff and performance at each investment agency could result.

Finally, Mr. Grabel said that there is no clear precedent for consolidation of investment funds totaling more than \$5 billion. He said that all states with sovereign wealth funds greater than \$5 billion have separate pension systems.

A committee member said that a thorough study should be conducted before any consolidation strategy is implemented. The member said that minimization of costs should not be the sole consideration, but the study should be aimed at permitting state government to run more efficiently and productively. Another committee member discussed possible benefits of consolidating staff between investment agencies.

Committee members discussed the benefits of studying the feasibility of consolidating New Mexico's investment agencies. Mr. Jacksha noted that strategies, such as uniform reporting, could be implemented without consolidating the investment agencies or the funds they invest.

Endorsement of Potential Legislation

Moratorium on Legislative Changes Affecting Funds Administered by the PERA

At the request of the committee, Mr. Propst briefly summarized the provisions of House Joint Memorial 2, which was endorsed by the committee during the 2014 interim and introduced during the 2015 session. Mr. Propst explained that the memorial requested the legislature to refrain from making changes that would affect the retirement benefits administered by the PERA.

Committee members discussed whether the memorial would implicate the legislature's ability to make changes affecting funds administered by the PERA. A committee member indicated that legislative changes might be necessary in the event of an economic downturn or in

other circumstances. Another committee member expressed concern that the memorial might suggest inflexibility if certain changes are necessary. Some committee members indicated that the memorial might serve as a statement of the legislature's desire to avoid making changes that could impact the solvency of the funds administered by the PERA.

Upon a motion made and seconded, the committee endorsed the memorial for the 2016 interim, with two members voting not to endorse the memorial.

Changes to the Definition of "New Mexico Private Equity Fund"

Mr. Wollmann presented a bill draft that would change the definition of "New Mexico private equity fund", which he described in a presentation earlier in the meeting. In response to a question from a committee member, Mr. Wollmann indicated that returns from private equity investments were at about 10.3 percent for three- and five-year investment periods, but long-term investment returns were at about .4 percent. Mr. Wollmann said that the bill proposed for endorsement would allow the SIC to use top investors from outside the state, but would guarantee that those investors would make some investments in New Mexico businesses. In response to another question, Mr. Wollmann clarified that the maximum investment in the New Mexico private equity funds would not be changed.

A committee member expressed concern that if the definition of "New Mexico private equity fund" is changed to eliminate a physical presence requirement, the state could lose tax revenues that could otherwise be collected from a fund with a manager residing in the state. Mr. Wollmann indicated that changing the definition would allow for better diversification and attract money from out-of-state businesses to New Mexico. Another committee member expressed support for the bill and also stated that the proposed legislation could maximize investment revenues for the state. In response to a question from another committee member, Mr. Wollmann indicated that the SIC is researching possibilities to maximize in-state job creation while maximizing investment returns. Upon a motion made and seconded, the members endorsed the bill without objection.

Municipal Post-Employment Life Insurance Benefits Trusts

Lou Hoffman, director, Department of Finance and Administrative Services, City of Albuquerque, presented a bill to permit a municipality to establish a post-employment life insurance benefits trust. Upon a motion made and seconded, the members endorsed the bill without objection.

Evolution of Sustainable Investing

Bruno Bertocci, senior portfolio manager, UBS Asset Management (UBS), provided the committee members with a description of investment strategies involving sustainable investment practices. He indicated that three basic approaches can be combined in a sustainable investment strategy. Those approaches include exclusion, integration and impact investing. Exclusion involves a strategy to avoid investing in certain stocks, while an integration approach focuses on investment in companies with certain characteristics to promote sustainability. UBS identifies

environmental, social and governance characteristics as possible sustainability factors. Mr. Bertocci said that sustainability factors create operating efficiencies, support value creation and create brand equity. He also indicated that highly sustainable companies tend to outperform other companies. Mr. Bertocci added that accounting standards for sustainable companies have evolved and strengthened, and the Sustainability Accounting Standards Board is developing material, non-financial, sustainability accounting standards.

Questions from committee members followed. A committee member asked whether UBS currently has any New Mexico governmental clients. Deidre Guice Minor, client advisor, UBS, indicated that UBS provides some work with respect to the SIC's real estate portfolio and manages the cash assets of the Santa Fe treasurer's office. Ms. Minor indicated that various entities in other states have expressed interest in UBS's sustainable investing practices.

A committee member commented that sustainable practices might need to reflect different values in different states. He indicated that since natural resources play a key role in New Mexico's economy, a sustainable investment strategy in New Mexico might require investment in companies that cultivate those resources. A committee member also inquired about investment in solar energy companies.

Adjournment

There being no further business before the committee, the committee adjourned at 4:25 p.m.